MEDIA ADVISORY 10/25/18

FASB UPDATES LIST OF PERMISSIBLE U.S. BENCHMARK INTEREST RATES FOR HEDGE ACCOUNTING

Norwalk, CT, October 25, 2018—The Financial Accounting Standards Board (FASB) today issued an Accounting Standards Update (ASU) that expands the list of U.S. benchmark interest rates permitted in the application of hedge accounting.

FASB Accounting Standards Codification® Topic 815, Derivatives and Hedging, provides guidance on the risks associated with financial assets or liabilities that are permitted to be hedged. Among those risks is the risk of changes in fair values or cash flows of existing or forecasted issuances or purchases of fixed-rate financial assets or liabilities attributable to the designated benchmark interest rate (referred to as interest rate risk).

In the United States, eligible benchmark interest rates under Topic 815 are interest rates on direct Treasury obligations of the U.S. government (UST), the London Interbank Offered Rate (LIBOR) swap rate, and the Overnight Index Swap (OIS) Rate based on the Fed Funds Effective Rate. When the FASB issued Accounting Standards Update (Update) No. 2017-12, *Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities*, in August 2017, it introduced the Securities Industry and Financial Markets Association (SIFMA) Municipal Swap Rate as the fourth permissible U.S. benchmark rate.

Based on concerns about the sustainability of LIBOR, in 2017, a committee convened by the Federal Reserve Board and the Federal Reserve Bank of New York identified a broad Treasury repurchase agreement (repo) financing rate referred to as the Secured Overnight Financing Rate (SOFR) as its preferred alternative reference rate.

The new ASU adds the OIS rate based on SOFR as a U.S. benchmark interest rate to facilitate the LIBOR to SOFR transition and provide sufficient lead time for entities to prepare for changes to interest rate risk hedging strategies for both risk management and hedge accounting purposes.

The amendments in the ASU will be effective concurrently with Update 2017-12. For public companies that already have adopted Update 2017-12, the new amendments are effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. For all other companies and organizations that already have adopted Update 2017-12, the new amendments are effective for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years. Early adoption is permitted in any interim period upon issuance of this ASU if a company or organization already has adopted Update 2017-12.

The ASU, including more information about effective dates, is available at www.fasb.org.

About the Financial Accounting Standards Board

Established in 1973, the FASB is the independent, private-sector, not-for-profit organization based in Norwalk, Connecticut, that establishes financial accounting and reporting standards for public and private companies and not-for-profit organizations that follow Generally Accepted Accounting Principles (GAAP). The FASB is recognized by the Securities and Exchange Commission as the designated accounting standard setter for public companies. FASB standards are recognized as authoritative by many other organizations, including state Boards of Accountancy and the American Institute of CPAs (AICPA). The FASB develops and issues financial accounting standards through a transparent and inclusive process intended to promote financial reporting that provides useful information to investors and others who use financial reports. The Financial Accounting Foundation (FAF) supports and oversees the FASB. For more information, visit www.fasb.org.